



United States Senate
**Committee on Small Business
and Entrepreneurship**

Olympia J. Snowe, Chair

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SENATOR OLYMPIA J. SNOWE'S OPENING STATEMENT

"Strengthening Hurricane Recovery Efforts for Small Businesses"

Good morning and thank you all for your presence here today.

I personally wish it were unnecessary to hold this second hearing to examine the Small Business Administration's management of disaster loans and the SBA's overall disaster response. Regrettably, it is clear that strong and specific measures must be taken immediately to rectify the unacceptably slow service the SBA has been providing to small business owners in desperate need of assistance – in a region that cannot afford to have its economic recovery held hostage to the plodding processes of paperwork.

The recent Hurricanes are repeatedly and appropriately described as disasters of "unprecedented proportions." The SBA therefore has a responsibility to provide a response of unprecedented proportion.

We will hear from several Administration witnesses – Administrator Barreto and representatives of the Department of Homeland Security and the Army Corps of Engineers – as well as others from the Gulf Region, in an effort to find solutions and move forward with relief and rebuilding. This hearing will also review contracting practices of Federal agencies and prime contractors to ensure that the interests of small business are met as Federal contracting dollars are spent in the Gulf region.

I have been working with Senator Kerry and our colleagues on this Committee to draft legislation to provide the SBA with additional tools to respond to these unprecedented disasters. Senator Vitter, Senator Landrieu, and Senator Cornyn have been particularly engaged in this effort to bring relief to the devastated region. I appreciate their tireless commitment on behalf of their states. At our previous hearing we heard from several small business owners who are constituents of Senators Vitter and Landrieu about the challenges they face in rebuilding their businesses and their communities. I have also been consulting closely with Senators Lott and Cochran as we work together to rebuild the entire Gulf region.

Yet, incredibly, even as the current problems in the Gulf persist, the SBA continues to oppose the

bill I have introduced with Senators Kerry, Vitter, Landrieu, Cornyn and Talent – the Small Business Hurricane Relief and Reconstruction Act of 2005 – that would give the SBA broader authority and flexibility to assist small businesses devastated by these hurricanes. What the SBA fails to mention - or even recognize - is the fact that the Agency's own objections to the bill have hampered our ability to rebuild the Gulf region.

As the primary Federal agency providing loans to individuals and businesses after a disaster, the Small Business Administration plays a key role in disaster response and recovery efforts. It is absolutely vital that assistance is delivered quickly and effectively.

While some improvements have been made, the evidence is overwhelming that, almost two months after our first hearing, the SBA response thus far has been insufficient to meet the needs of our small businesses.

I find it deeply disconcerting that, without the urging of this Committee many of SBA's improved actions would not have occurred. Indeed, when Committee staff has pointed out problematic SBA policies that hamper the Agency's response, SBA employees have responded that the SBA "does not want to change horses in midstream." Well, what better time for a new strategy than when something isn't working?

Clearly, the SBA's initial disaster response plan was not comprehensive and flexible. The SBA has taken 40 days or more to change many of its burdensome rules and policies to expedite the disaster loan process, demonstrating a lack of urgency in its response.

For example, it has just started simplifying parts of the processing system, including its "credit elsewhere" test that adds hours to the process, and it has only just started reaching out to the private sector for help. The SBA should be proactive, not reactive, in responding to disasters.

The agency waited two months after Hurricane Katrina struck to ask trade groups for assistance in obtaining lending officers and loss verifiers, a veritable eternity given the magnitude of the hurricanes and given the key role these employees have in completing loan requests. And the only reason the SBA made those requests was because this Committee recommended it.

Applications are sitting for 8 to 10 days before being even input in the computer for processing. The SBA should have immediately planned for a Disaster Assistance workforce far larger than the current 3,952 workers, and should have hired new employees from the public, sought referrals from trade groups, and perhaps even requested employees from other Federal agencies.

Looking forward, it is absolutely necessary that the SBA develop a comprehensive disaster response plan that would accommodate different scales of disasters. In addition, the SBA should work with state governments to determine their individual needs on an annual basis so they can coordinate their disaster relief efforts.

The numbers speak for themselves. As you can see on this chart, of the more than 225,000 loan applications received by the SBA, both from individuals and small businesses, only 38,000, or 17 percent, have been "resolved" by being denied, approved, or withdrawn. Thus, 187,000 applications remain unresolved and pending. Only 5,728 applications have been approved. The

figures are even worse when you consider small businesses by themselves: as of yesterday only 10.1 percent of applications from small businesses had been resolved, and only 3 percent of business applications had been approved. Of the 28,540 small businesses that have requested loans, only 840 have been approved.

Over the last 20 days the SBA has received about 5,400 applications per day, and has resolved only about 1,235 per day, which means that each day about 4,100 more applications have been received than settled.

This means that, even at the new faster rate of resolving applications, and even if no more applications are submitted, it would take almost 4 months to complete all the pending applications. Can there seriously be any question the SBA needs to move in a more effective direction? Additional personnel and new approaches are warranted to respond to this great demand.

The full resources of the Federal, state and local governments must be brought to bear to provide swift and immediate relief. I repeat that I am committed to doing whatever is needed to provide immediate and meaningful support to this region.

Two weeks ago I sent Committee staff to the Gulf region to examine the SBA's disaster loan processing facilities to determine the nature and extent of the reported delays in loan approvals. They returned with several recommendations that I endorsed, along with Senators Kerry, Vitter and Landrieu. Today, this Committee is eager to measure how they have been implemented. Some of our short-term recommendations included:

- * That the SBA should hire 1,000 additional employees for the Ft. Worth processing center, including business loan officers and data entry staff to meet the current demand.
- * The SBA should hire 450 additional Loss Verification Officers to analyze damaged homes and businesses.
- * The SBA should streamline credit tests for disaster loan applications to make them less burdensome.
- * The SBA should hire at least five additional full-time Procurement Center Representatives and five additional full-time Commercial Market Representatives, as well as leverage existing personnel and expertise to help small businesses with prime and subcontracting opportunities.
- * The SBA and its resource partners should increase one-on-one business counseling and services to small businesses affected by a disaster.
- * The SBA should enhance its disaster loan computer system, the Disaster Credit Management System, to make it more efficient and effective for future disasters, and expedite implementation of on-line loan applications.

I look forward to the Administration's response to these recommendations as we discuss these issues today.

Today, we will also examine the serious problems faced by small businesses who seek to obtain Federal contracts and hear representatives of the Army Corps of Engineers and the Department of Homeland Security describe their reconstruction contracting for small businesses.

The Small Business Act directs the SBA to provide small businesses a fair opportunity to bid on government projects. To meet this standard, twenty-three percent of contracts must go to small firms.

As indicated on this chart, last month Commerce Secretary Carlos Gutierrez said small businesses have received 72 percent of Federal contract dollars for post-Katrina recovery, not including subcontracts. This claim is astounding, and I question how the Administration arrived at such a figure.

The Executive Branch is responsible for informing Congress and the public about Federal contracting through its Federal Procurement Data System. But the System does not include up-to-date post-Katrina contracting information and, as of the end of October, FEMA had yet to finalize the terms of \$1.6 billion in no-bid contracts. How can the Administration assert 72 percent of its contract dollars have gone to small businesses when this critical information is omitted?

Unfortunately, in some cases the Administration has either neglected small business contractors or completely excluded them. For example, none of its Katrina supplemental requests provide any funding for additional Procurement Center Representatives and Commercial Market Representatives in the Gulf Region despite this Committee's request to do so.

Small businesses have proven to be capable partners in federal contracting. With so many losses for businesses already after the hurricanes, it is imperative every Federal agency involved in disaster recovery meets and even exceeds the statutory goals for small business prime contracting.

Along with House Small Business Chairman Don Manzullo I have requested that the Government Accountability Office investigate whether small and minority-owned businesses have been given a fair opportunity to compete for Federal and Federally-funded relief contracts and subcontracts.

The challenges facing the victims of these Hurricanes are great, and the hardest work is still ahead. We must help the people of the Gulf Region return to a normal way of life and see their businesses prosper. I will continue to work with the Administrator Barreto, Majority Leader Bill Frist, and the Bush administration so we can continue to leverage the authority of the SBA to provide real relief to those left without the means to rebuild their lives.

I urge the SBA to focus on finding a remedy for any and every problem that prevents or delays its front-line employees working in the disaster zones from aiding victims.

With that, I now recognize the ranking member, Senator Kerry, for his opening statement.